

**LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

October 16, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Loess Hills Development and Conservation Authority
Oakland, IA

We have audited the accompanying statements of financial position of Loess Hills Development and Conservation Authority (a nonprofit organization) as of June 30, 2012 and 2011, and the related statement of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loess Hills Development and Conservation Authority as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2012, on our consideration of Loess Hills Development and Conservation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

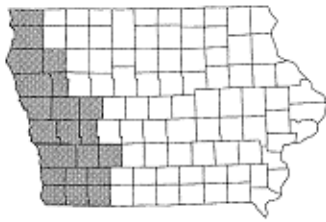
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October 16, 2012
Loess Hills Development and Conservation Authority
Independent Auditors' Report

Our audits were conducted for the purpose of forming an opinion on Loess Hill Development and Conservation Authority's financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 7 and 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Loess Hills Development and Conservation Authority (LHDCA) provides this Management's Discussion and Analysis of the LHDCA's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the LHDCA's financial statements which follow.

2012 Financial Highlights

- LHDCA appropriations from the State of Iowa totaled \$475,000 for fiscal year 2012, which was a decrease of \$25,000 for the fiscal year 2011 appropriation of \$500,000.
- State appropriations for fiscal year 2012 included a requirement restricting administrative expenses to 5% of the total appropriation from this fund, which was passed through to and implemented by the two related organizations, the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance.
- The LHDCA's net assets decreased by approximately 40%, or \$4,087 from June 30, 2011 to June 30, 2012.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the LHDCA's financial activities.

The basic financial statements consist of a Statement of Financial Position including assets, liabilities, and net assets, a Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the LHDCA, on a comparative basis, including resources held by the LHDCA but restricted for specific purposes by legislation or by the LHDCA's Board of Directors.

Notes to Financial Statements (pgs. 12-13) provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the LHDCA's Financial Activities

The Statement of Financial Position and Statement of Activities and Changes in Net Assets

One of the most important questions asked regarding the LHDCA's finances is "Was the LHDCA monetarily able to attain its goals during the year?" The Statement of Financial Position and the Statement of Activities and Changes in Net Assets report information about the LHDCA's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the LHDCA's net assets, which is the difference between assets and liabilities, as one way to measure the LHDCA's financial position. Over time, increases or decreases in the LHDCA's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in appropriations and legislation, are also important in making this determination.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from all activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the LHDCA

As noted earlier, net assets may serve over time as a useful indicator of financial position. The LHDCA's net assets decreased by \$ (4,087) or 40% from fiscal year 2011 to fiscal year 2012.

Assets, Liabilities and Net Assets		
	June 30,	
	2012	2011
Assets		
Current Assets		
Cash and Equivalents	\$ 6,811	12,192
Accounts Receivable	-	3,230
Prepaid Insurance	50	50
	<u>6,861</u>	<u>15,472</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 794	5,318
Net Assets		
Unrestricted	6,067	10,154
Total Liabilities and Net Assets	<u>\$ 6,861</u>	<u>15,472</u>

State appropriations are distributed to the LHDCA on a quarterly basis and passed through to the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance upon receipt of funds. No state appropriations are held by the LHDCA.

The LHDCA requests an administrative fee of 1.5%, an increase of 0.5% from fiscal year 2011, of the yearly appropriation from both the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance for administrative and general expenses of the LHDCA and auditing expenses for all three organizations: the LHDCA, Hungry Canyons Alliance, Inc. and the Loess Hills Alliance. An independent audit is performed for each organization after the end of each fiscal year, and filed with the Auditor's Office, State of Iowa.

The following shows the changes in net assets for the LHDCA.

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2012	2011
Operating revenues:		
State Appropriations	\$ 475,000	500,000
State Appropriations Passed through to Related Organizations	(475,000)	(500,000)
Net State Appropriations	-	-
Interest	47	124
Administrative Support	7,125	5,000
Total support and revenue	7,172	5,124
Operating expenses:		
Administrative Fees	5,058	1,748
Other Management and General Expenses	501	400
Professional Fees	5,700	5,700
Total operating expenses	11,259	7,848
Change in net assets	(4,087)	(2,724)
Net Assets-Beginning of Year	10,154	12,878
Net Assets-End of Year	\$ 6,067	10,154

Budgetary Highlights

The LHDCA's budget expenditures for fiscal year 2012 were \$2,292 less than anticipated or 17% under budget.

Factors Affecting the LHDCA's Future

The LHDCA continued to maintain its good financial position during the current fiscal year. However, the condition of the national, state, and local economies will continue to be a concern for the LHDCA Board of Directors. Some of the realities that may potentially become challenges for the LHDCA are:

- Ensuring that infrastructure protection, rural development, and natural resource protection for the Loess Hills and western Iowa remain important issues in the eyes of federal, state, county, and local governments.
- Reductions in state appropriations would negatively impact the programs sponsored by the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance, forcing them to suspend or reduce the number and scope of projects or programs serving western Iowa and the Loess Hills area.

Contacting the LHDCA's Financial Management

This financial report is designed to provide state and county governments, partners, and taxpayers with a general overview of the LHDCA's finances and to show the LHDCA's accountability for the money it receives. If you have questions about this report and/or need additional financial information, contact Loess Hills Development and Conservation Authority, 712 S. Hwy. 6 & 59, P.O. Box 189, Oakland, IA 51560-0189.

FINANCIAL STATEMENTS

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 6,811	12,192
Accounts receivable	-	3,230
Prepaid insurance	<u>50</u>	<u>50</u>
Total assets	\$ <u>6,861</u>	<u>15,472</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 794	5,318
Net assets		
Unrestricted	<u>6,067</u>	<u>10,154</u>
Total liabilities and net assets	\$ <u>6,861</u>	<u>15,472</u>

See Accompanying Notes to Financial Statement

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Support and Revenue		
State appropriations	\$ 475,000	500,000
State appropriations passed through to related organizations	<u>(475,000)</u>	<u>(500,000)</u>
Net state appropriations	-	-
Administrative support	7,125	5,000
Interest	<u>47</u>	<u>124</u>
Total support and revenue	7,172	5,124
Expenses		
Administrative fees	5,058	1,748
Professional fees	5,700	5,700
Other management and general expenses	<u>501</u>	<u>400</u>
Total expenses	<u>11,259</u>	<u>7,848</u>
Change in net assets	(4,087)	(2,724)
Net assets, beginning of year	<u>10,154</u>	<u>12,878</u>
Net assets, end of year	\$ <u><u>6,067</u></u>	<u><u>10,154</u></u>

See Accompanying Notes to Financial Statement

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (4,087)	(2,724)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
(Increase) decrease in accounts receivable	3,230	(3,230)
Increase (decrease) in accounts payable	<u>(4,524)</u>	<u>1,748</u>
Net cash used by operating activities	(5,381)	(4,206)
Cash and cash equivalents, beginning of year	<u>12,192</u>	<u>16,398</u>
Cash and cash equivalents, end of year	\$ <u><u>6,811</u></u>	<u><u>12,192</u></u>

See Accompanying Notes to Financial Statement

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Loess Hills Development and Conservation Authority was established by the Iowa General Assembly in 1993 under Chapter 161D, Code of Iowa. The mission of the Authority is to develop and coordinate plans for projects related to the unique natural resources, rural development and infrastructure problems of the twenty-two counties in the deep loess soils region of Western Iowa.

The authority administers the Loess Hills Development and Conservation Fund of the State Treasury. Proceeds from this fund are then passed through to and used by the Authority's two related organizations, the Hungry Canyons Alliance, Inc. and the Loess Hill Alliance, for the furtherance of the Authority's mission.

The accompanying financial statements, which include all programs administered by Loess Hills Development and Conservation Authority, have been prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other accounting principles appropriate for non-profit associations.

The Organization's Board of Directors is comprised of one representative appointed by the board of supervisors of each county participating in the Authority.

The statements of financial position, activities, and cash flows are all organization-wide financial statements. They report information for all Loess Hills Development and Conservation Authority's activities, which are in turn all deemed to be governmental activities. The Organization has no proprietary type activities.

Revenue Recognition – Revenues from appropriations, grants and other services are recognized when received. State appropriations, and interest earned thereon, in excess of related program expenses are recorded as temporarily restricted net assets until those funds are expended.

Income Taxes – The Organization is considered to be a governmental unit, making it exempt from state and federal income taxes under the Internal Revenue Code and, accordingly, no provision has been made for income tax liabilities or expense. The Organization is not considered a private foundation.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Cash Equivalents – For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three-months or less to be cash equivalents.

Concentration of Credit Risk – The Organization receives a substantial portion of its revenue from state grants. A significant reduction in the level of government funding would have a major effect on the Organization's programs and activities.

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash funds deposited in excess of federally insured limits are protected by the Iowa State Sinking Fund for banks and savings associations, which covers Iowa uninsured public funds.

Fair Value of Financial Instruments – The carrying amounts of cash, accounts payable, accrued expenses, and other liabilities approximate their fair values due to the short-term maturities of these financial instruments.

Donor Imposed Restrictions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support depending on the nature of the restriction.

Principal Programs – The following is a summary of the principal programs administered by the Authority:

Hungry Canyons Alliance, Inc. – This Organization provides demonstrations, conducts research in effective methods, and provides financial and technical assistance for streambed stabilization projects in the loess soils region.

Loess Hills Alliance – This Organization's primary focus is to protect special natural and cultural resources while ensuring economic viability and private property rights of the loess soils region.

Date of Management Review – Management has evaluated subsequent events through October 16, 2012, the date the financial statements were available to be issued.

NOTE 2 COOPERATIVE AGREEMENT

The Organization enters into, on an annual basis, a cooperative agreement with Golden Hills Resource Conservation and Development, Inc. Under this agreement, Golden Hills Resource Conservation and Development, Inc. performs various duties, as follows: (1) administers the payments for the Authority's expenses; (2) holds semi-annual meetings of the Executive Committee at which expenditures of the projects are reviewed and approved; (3) reviews semi-annual activity and financial reports of the Authority, and; (4) arranges for, prepares for, and reviews the annual audit and related reports. The Organization recognized expenses totaling \$5,058 and \$1,748 for these services for the years ended June 30, 2012 and 2011, respectively.

NOTE 3 RELATED PARTY TRANSACTIONS

The Organization passed through state appropriations of \$475,000 for 2012 and \$500,000 for 2011, to its affiliate organizations and received \$7,125 for 2012, and \$5,000 for 2011, in administrative support from these organizations.

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance Favorable (Unfavorable)</u>
Support and Revenue			
State appropriations	\$ 475,000	475,000	-
State appropriations passed through to related organizations	(475,000)	(475,000)	-
Administrative support	7,125	7,125	-
Interest	100	47	(53)
Total support and revenue	<u>7,225</u>	<u>7,172</u>	<u>(53)</u>
Expenses			
Administrative fees	7,000	5,058	1,942
Professional fees	6,000	5,700	300
Other management and general expenses	550	501	49
Total expenses	<u>13,550</u>	<u>11,259</u>	<u>2,291</u>
Change in net assets	(6,325)	(4,087)	2,238
Net assets, beginning of year	<u>10,154</u>	<u>10,154</u>	<u>-</u>
Net assets, end of year	\$ <u>3,829</u>	<u>6,067</u>	<u>2,238</u>

See Accompanying Independent Auditors' Report



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

October 16, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Loess Hills Development and Conservation Authority
Oakland, IA

We have audited the financial statements of Loess Hills Development and Conservation Authority as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 16, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Loess Hills Development and Conservation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Loess Hills Development and Conservation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Loess Hills Development and Conservation Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Continued.....

Loess Hills Development and Conservation Authority
Report on Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Loess Hills Development and Conservation Authority's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Loess Hills Development and Conservation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P. C.